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September 10, 2004

**VIA HAND-DELIVERY TO:**

Chairman Pat Miller  
TENNESSEE REGULATORY AUTHORITY  
460 James Robertson Parkway  
Nashville, Tennessee 37243-0505

**Re: PETITION OF TENNESSEE AMERICAN WATER COMPANY TO  
CHANGE AND INCREASE CERTAIN RATES AND CHARGES SO  
AS TO PERMIT IT TO EARN A FAIR AND ADEQUATE RATE OF  
RETURN ON ITS PROPERTY USED AND USEFUL IN  
FURNISHING WATER SERVICE TO ITS CUSTOMERS  
DOCKET NO. 04- 00288**

Dear Chairman Miller:

Enclosed please find the original and five (5) copies of a Petition to be filed in behalf of our client, Tennessee-American Water Company, pursuant to T.C.A. § 65-5-203. We are simultaneously, with the filing of this Petition, filing with Mr. Pat Murphy six (6) copies of certain tariffs for Tennessee-American Water Company, which are explained and discussed in the Petition and which tariffs have an issue date of September 10, 2004, and an effective date of October 10, 2004. Also we have enclosed an electronic version in PDF format, that includes this letter, the Petition, the testimony of witnesses, their exhibits, and the tariff filings.

I am also enclosing the original and five (5) copies of the sworn testimony and exhibits of the following witnesses who will testify in behalf of the Company

Mr. Paul Diskin;  
Mr. Michael A. Miller,  
Mr. John Watson;  
Mr. James H. VanderWeide;  
Dr. Edward L. Spitznagel, Jr.;  
Mr. Paul Herbert; and  
Mr. Monty L. Bishop.

I am sending a copy of this letter to Richard Collier, Esq., Mr. Pat Murphy and Mr Aster Rutibabalira. I am also sending a copy of this letter, the Petition, testimony and the tariffs to Assistant Attorney General Timothy C. Phillips, of the Consumer Advocate Division of the Attorney General's office. Also enclosed is our check in the amount of \$25.00, payable to the Tennessee Regulatory Authority for the filing fee.

Should you have any questions concerning any of the enclosed, please do not hesitate to contact me.

With kindest regards, I remain

Very truly yours,



R. Dale Grimes

RDG.sdt  
Enclosures

cc: Hon. Sara Kyle (w/o enclosures)  
Hon. Ron Jones (w/o enclosures)  
Hon. Debi Tate (w/o enclosures)  
Timothy C. Phillips, Esq. (w/ enclosures)  
Richard Collier, Esq. (w/o enclosures)  
Mr. Pat Murphy (w/o enclosures)  
Mr. Aster Rutibabalira (w/o enclosures)  
Bob Corker, Mayor of Chattanooga (w/ encl.)  
Paul Diskin (w/o enclosures)  
Michael A. Miller (w/o enclosures)  
T. G. Pappas (w/o enclosures)

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**NASHVILLE, TENNESSEE**

IN RE: PETITION OF TENNESSEE AMERICAN WATER )  
COMPANY TO CHANGE AND INCREASE )  
CERTAIN RATES AND CHARGES SO AS TO )  
PERMIT IT TO EARN A FAIR AND ADEQUATE )  
RATE OF RETURN ON ITS PROPERTY USED AND )  
USEFUL IN FURNISHING WATER SERVICE TO ITS )  
CUSTOMERS )

DOCKET NO 04-\_\_\_\_\_

**P E T I T I O N**

Tennessee American Water Company (Company), a Tennessee corporation authorized to conduct and conducting a public utility business in the State of Tennessee, does hereby simultaneously file with the Tennessee Regulatory Authority (TRA), this Petition and a revised schedule of tariffs to become effective thirty (30) days after date of issue and requests that the TRA, pursuant to T.C.A. § 65-5-201, et seq., investigate the Company's present and projected earnings and hear and determine that the increased rates as reflected in its Tariffs that it has filed to become effective October 10, 2004, are just and reasonable. In support of this request, the Company avers that:

1. The Company is a public utility as defined in T.C.A. § 65-4-101 and is engaged in providing residential, commercial, industrial and municipal water service, including public and private fire protection service to the City of Chattanooga and surrounding areas including 71,245 customers as of December 31, 2003, subject to the jurisdiction and supervision of the Authority pursuant to Chapter 4 and Chapter 5 of Title 65 of Tennessee Code Annotated. The rates of the

customers located in the State of Georgia are not regulated by the Public Service Commission of the State of Georgia but are regulated by this Authority.

2. At the present time, the Company is a wholly-owned subsidiary of American Water Works Company, Inc. (AWWC). AWWC is the largest water holding company in the United States and consists of twenty-three (23) companies, which provide water and waste water services to 20 million people in twenty-seven (27) states, four Canadian Provinces, and South America. The Company's existing rates and charges will not provide, and cannot be made to provide, sufficient revenues to cover all the costs incurred in providing adequate quality water service including its cost of capital.

3 The Company has the responsibility to its customers to provide them with the best water service possible. This responsibility includes meeting the present and future service requirements of customers, improving existing service and introducing new technologies as they are developed. The Company has the technological capability to do this, however, it cannot accomplish such a program without adequate earnings. As this Authority knows, the Company, like all regulated utilities, must have customer rates approved that will permit it to earn a rate of return on its investment in the State of Tennessee which will be sufficient to attract new capital at reasonable terms, as it is needed.

4. The Company is also continuing its program of eliminating private service lines throughout the system which began in 1986, the replacement of the Lookout Mountain distribution supply pipeline, the replacing of meters, service lines, and the installation of main extensions and the general relocation and replacement of existing facilities. All of these programs have been planned and are being instituted to bring about more and better water service. Some of them must continue to be carried out at additional costs

5. The Company's capital expenditures program for 2004 was \$5,812,000 for "normal recurring" items, and \$2,450,000 for specific projects, for a grand total of \$8,262,000. In 2005, the "normal recurring" items are estimated at \$5,349,000 and the special projects at \$6,389,278 for a grand total of \$11,738,278. These capital expenditures have resulted and will result in more and better service to the Company's customers throughout the area it serves. The testimony of the Company's witnesses will detail the major construction projects, the expenditures, the anticipated results and benefits to its customers.

6 Under the present rates, the Company's revenues and revenue projections are not sufficient and cannot be made sufficient to: (a) allow the Company to earn a fair rate of return to which it is entitled under Article 1, Section 8 of the Constitution of Tennessee, and the 14<sup>th</sup> Amendment to the Constitution of the United States; (b) provide a fair rate of return on its investment for a reasonable period; (c) attract on reasonable terms the large sums of additional capital required to adequately maintain, expand and improve the Company's plant in Tennessee to meet the needs of the public for additional improved quality water service and to maintain existing service levels; (d) maintain its credit; and (e) maintain its operations at a level that will not be materially impaired or damaged.

7 The Company avers that a fair rate of return on the Company's operations is essential to the continued provision of adequate quality service, to make the necessary improvements and to meet the expansion needs of the customers it serves. Consequently, it is essential and in the public interest that the Company's rates and charges be revised to provide an increase in revenue. Because of the continued increase in expenses and costs of providing new and improved services, the earnings situation of the Company has deteriorated to a level that,

without rate relief, the Company cannot meet demands for service in an orderly and economical fashion.

8. As will be testified to and as shown by the accounting exhibits filed by its witness, Mr. Paul T. Diskin, the Company selected as the historical test year the twelve months ended March 31, 2004, and has adjusted the test period for two levels of adjustments. The first adjustment normalizes the test year and the second level adjusts the normalized year to arrive at the attrition year, which is the twelve months ended December 31, 2005. The resulting rate of return for the attrition year, using current rates, was 6.67% on a rate base of \$87,611,392 and net operating income of \$5,846,426. At a proposed rate of return of 8.00%, the Company would have a revenue deficiency of \$1,970,887 for the attrition year.

9. The Company would like to be in a position to continue its upgrading program and improve the quality of service offered its customers, but the Company cannot provide the necessary new facilities, maintain existing ones adequately, and meet the needs of its customers for the future with such an unrealistic rate of return. The Company has no other alternative but to petition this Authority to permit it to place higher rates into effect in order to: (a) avoid material impairment of damage to the Company's long range operations; and (b) to enable the Company to earn a fair rate of return on its Tennessee operations during the foreseeable future.

10. Mr. Michael A. Miller will testify as to the Company's capital structure and the cost of debt and preferred stock for the attrition period. The testimony of Mr. Miller will recommend that the capital structure that should be used for the Company for the attrition year should be comprised of \$38,921,690 equity, 44.19%; \$43,041,110 long term debt, 48.88%; \$1,400,000 preferred stock, 1.59%; \$4,699,624 short term debt, 5.34%. The Company in its

overall cost of capital has used an equity cost of 10.7%.<sup>1</sup> Using the capital structure and cost of capital as set out above and shown in the exhibits of Dr. James H Vanderweide and Mr. Miller, the calculated weighted cost of capital is 8.00%

11. The Company proposes that it be allowed to place into effect customer rates that will produce an overall rate of return of 8.00% on a rate basis of \$87,611,392. The additional gross revenues required would be approximately \$1,970,887. The amount requested is the minimum additional annual gross revenues necessary for the Company to attract the necessary capital required to continue to provide adequate water service to the people of the City of Chattanooga and surrounding area and to meet the demand for water service in the foreseeable future.

12. The Company has filed simultaneously with this Petition revised Tariffs effective October 10, 2004, designed to produce the additional gross revenues needed. The testimony of various Company witnesses and the exhibits that Mr. Miller will sponsor will show how these additional gross revenues will be derived. The tariffs filed will produce a total increase in annual revenue of approximately \$1,971,000 by increasing rates.

13. The Company, for the first time, is proposing a 25% discount for those customers who are below the federal poverty level. This proposal is to assist the less fortunate to pay their water bill. The tariff provides for the low income customers to be certified by an independent third party as meeting certain income guidelines in order to receive a discount on the meter charge (minimum bill) portion of their monthly bill.

14. The Company avers that the above-proposed changes are necessary and proper and are designed to meet the present and future needs of its customers in an economically

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<sup>1</sup> The witness Dr. James H. VanderWeide recommended a cost of equity range of 10.4% to 11.5% (Question and Answer 85, page 42 of his testimony.)

feasible manner. The Company's Tariffs as filed and the overall rate of return it has requested are all fair and reasonable according to the laws of Tennessee<sup>2</sup>, and are in the best interests of the Company and the customers it serves, and, therefore, should be approved.

**WHEREFORE**, the Company requests the TRA to:

1. Schedule a hearing upon proper notice for the presentation of evidence as to the present and projected earnings and the additional revenues required to provide a fair rate of return on the Company's property used and useful in providing quality water service to its customers.
2. Enter an order approving the Company's schedule of rates filed with the Commission designed to increase the Company's annual revenues by approximately \$1,970,887 and adopt as the method to affect this increase in revenues, the Tariffs filed to become effective October 10, 2004, or as soon thereafter as lawfully permitted.
3. Grant such other relief as may be required in light of the evidence to be produced at the hearing.

This the 8TH day of SEPTEMBER, 2004.

TENNESSEE AMERICAN WATER COMPANY

By:   
John Watson, Network General Manager

<sup>2</sup> The Legislature enacted Chapter 716 Public Acts of Tennessee (House Bill 3240, Senate Bill 3198), amending TCA § 65-5-201 as follows (a) prohibiting utilities from charging municipal governments for fire hydrant services, (b) permitting the utility to recover its costs for these services by charging rates to its non-municipal government customers as approved by the TRA, (c) the new rate shall take effect as prescribed by the TRA in a rate proceeding, and (d) this proceeding shall be commenced within 120 days following passage of the Act (which was signed by Governor Bredesen on May 18, 2004)





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R. Dale Grimes

T. G. Pappas

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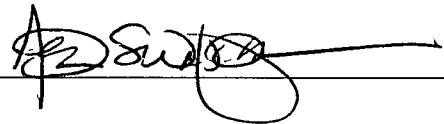
*Attorneys for Petitioner*

STATE OF TENNESSEE )

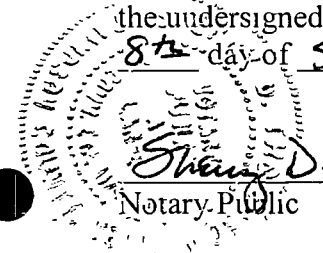
ss:

COUNTY OF DAVIDSON )

JOHN S WATSON, upon oath, says that he is the V.P. & GEN. NETWORK MANAGER of Tennessee-American Water Company, a Tennessee corporation, Petitioner in the above-entitled cause; that as such officer of said Corporation, he has executed the foregoing Petition and has authority to do so; that he has read said Petition and knows the contents thereof; and that the statements therein contained are true to the best of his knowledge, information and belief.



Subscribed and sworn to before me,  
the undersigned authority, this  
8<sup>th</sup> day of September, 2004.



Sherry D. Thompson  
Notary Public

My Commission Expires: 11/25/2006